An examination of the RSM US Wealth Management portfolio construction process

Our investment philosophy

Through all of the noise in the investment industry, we believe there are really six drivers of investment returns: 1) asset allocation, 2) costs, 3) tax efficiency, 4) risk, 5) investor behavior and 6) time.

Asset allocation, the decision of how much to allocate to various investments, is a major driver of portfolio performance and volatility. We believe strongly in a long-term strategic approach to asset allocation. We also believe that maintaining investment discipline, over time and through various market cycles, offers the best opportunity to achieve long-term wealth objectives.

Our portfolio construction process

The asset allocations that our clients ultimately implement are arrived at through a sophisticated portfolio construction process. Due to its importance, we focus great attention on the portfolio construction process and adhere to three fundamental tenets:

- Asset allocation is a combination of quantitative techniques and qualitative professional judgments.
- The results of most asset allocation optimization models are highly sensitive to the inputs and constraints. The goal of asset allocation, therefore, should be to provide underlying support for intelligent and reasonable portfolio management decisions.
- The challenge of asset allocation is differentiating the art from the science.

A goal of the process is to create a set of portfolios that offer effective mixes of assets providing maximum return for a given level of risk or minimum risk for a given level of return. We place an emphasis on risk, not just portfolio return, during our entire process. We realize and understand that a key concern for our clients is the loss of their wealth. Therefore, capital preservation is a focal point for the portfolios we ultimately create. The determination of exactly which portfolio is most appropriate for a client is the result of an analysis that takes into account factors, such as risk tolerance, time horizon, desired return and overall wealth objectives.
Our manager selection process

Once an appropriate asset allocation has been chosen, the next step in the implementation stage is to select the appropriate investment managers. Through our open architecture platform, we are able to provide objective and independent investment advice. With no proprietary products, we have the ability and opportunity to search for investment solutions strictly by how well they meet our clients’ needs. The objective of our thorough due diligence process is to identify superior investment managers we believe are both representative of a given asset class and have a high probability of repeating their historical performance going forward.

Testing our process

Merriam–Webster defines an audit as a methodical examination and review. As RSM US Wealth Management (WM) is embedded in an accounting firm we are very aware of the importance of an audit process. Therefore, we periodically invite independent third parties to conduct a comprehensive evaluation of our entire portfolio construction and asset allocation process. In the asset allocation analysis, we are looking to verify, for example:

- Portfolios are built with capital preservation in mind.
- The exposures that are being taken are intended and expected.
- The risks that are being taken are budgeted appropriately and are not concentrated.

In the analysis of the investment managers, we are looking to verify, for example:

- The investment managers perform a specific function inside the portfolio. The functions are often referred to as simply “risk reducers” and “return enhancers.”
- The investment managers provide necessary diversification from one another, providing different sources of risk and return.

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